When the United States Gets a Cold, Mexico Gets Pneumonia

How the U.S.-created Economic Crisis is Making its Southern Neighbor Sick

BY Sarah Anderson and Manuel Pérez-Rocha

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The U.S. subprime mortgage mess has gone viral, infecting most countries in the world. Among large developing countries, the one that will suffer by far the most is Mexico. The IMF forecasts that Mexico's economic growth rate will be only 1.8 percent in 2009, a steep drop from 4.9 percent in 2006, before the subprime crisis erupted. What does this mean for ordinary Mexicans?

JOB LOSS

Through the 1994 North American Free Trade Agreement, the Mexican economy has become deeply intertwined with the United States. With the U.S. economy on the skids, Mexican businesses that rely on the United States as a market for their products or as a source of investment or credit will be badly hurt and likely slash their workforces. In July the Bank of Mexico estimated that only 370,000 jobs will be created this year, less than a third of what's needed for people entering the workforce. After the present economic meltdown this figure might be even lower.

DEPENDENCE ON THE U.S. ECONOMY

% of Mexican exports that go to the US: 80

% of Mexico's national income made up by exports to the United States: 24

% of Mexico's foreign investment coming from the United States: 50

% of banks in Mexico that are U.S.-owned: 27

POVERTY AND HUNGER

Millions of Mexicans rely on money sent home by family members working in the United States to meet their basic food and other needs. But this source of income is drying up. In the U.S. construction industry alone, Latino workers have lost nearly 250,000 jobs over the past year, according to the Pew Hispanic Center. The Mexican government's most recent figures show that "remittances," the wages these workers send to their home country, fell sharply during the first eight months of 2008, from \$16.2 billion to \$15.5 billion. And that was *before* the September meltdown.

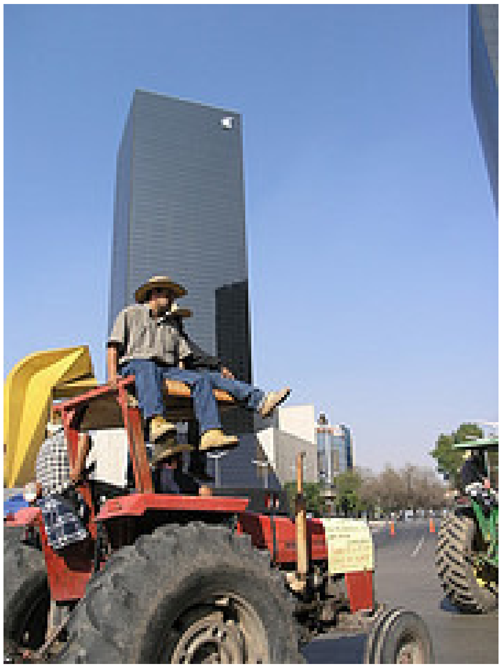
In large part due to the lifting of trade barriers under NAFTA, Mexico is also more dependent on the United States and other countries for food. In the first half of this year alone, Mexico spent $10.4 billion on food imports -- 30 percent more than in 2007.

CUTS IN SOCIAL SERVICES

The Mexican government will be squeezed in at least two ways. First, Mexico's state-owned oil company has been a major revenue source, contributing $284 billion between 1998 and 2005. But with the global economic slowdown, oil prices are expected to continue to fall. Second, nervous investors are pulling their money out of the Mexican economy, provoking a peso devaluation of nearly 20 percent in October alone. Because of NAFTA, the government is prohibited from putting controls on capital outflows, and so it has had to try to prop up the value by buying up pesos – using 12.8% of national reserves thus far. Currency devaluation can make a country's exports more competitive, but only if markets for the products exist. In the meantime, government budgets will be further strained by high prices for imports and for foreign debt payments. Particularly at a time when the Mexican government has made the drug war a top priority, this is likely to mean further cuts in spending aimed at fighting poverty and providing basic services.

WE NEED A NEW TRADE MODEL

The current economic crisis underscores the need for a new trade and development model that secures jobs and land for workers and farmers in the U.S. and abroad, instead of the current "free trade" model that only seeks to increase profits for corporations. This new model should set a floor for basic labor and environmental standards, while also allowing governments more flexibility to pursue their own national economic strategies. For example, governments should be allowed to put controls on capital flows to protect their economies from financial volatility. And they should be allowed to use trade and investment restrictions to protect sensitive products, like staple foods.



Farmers protest in Mexico City.

In this time of crisis, the worse things get in Mexico and other developing countries, the worse things will get for U.S. workers and communities. Higher unemployment in Mexico will create even more brutal competition for jobs, while more strain on government budgets will lead to even more reckless environmental practices that affect both sides of the border. New rules that promote economic stability and dignified jobs, rather than cut-throat competition, would benefit us all.

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